KEKER & VAN NEST, LLP
JOHN W. KEKER - #49092
HENRY C. BUNSOW - #60707
MICHAEL H. PAGE - #154913
710 Sansome Street
San Francisco, CA 94111-1704
Telephone: (415) 391-5400
Facsimile: (415) 397-7188

INTERTRUST TECHNOLOGIES CORPORATION
DOUGLAS K. DERWIN - #111407
MARK SCADINA - #173103
JEFF MCDOW - #184727
4800 Patrick Henry Drive
Santa Clara, CA 95054
Telephone: (408) 855-0100
Facsimile: (408) 855-0144

Attorneys for Plaintiff and Counter-Defendant
INTERTRUST TECHNOLOGIES CORPORATION

UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

INTERTRUST TECHNOLOGIES CORPORATION, a Delaware corporation, Plaintiff, v. MICROSOFT CORPORATION, a Washington corporation, Defendant. AND COUNTER ACTION.	Case No. C 01-1640 SBA (MEJ) Consolidated with C 02-0647 SBA **NOTICE OF APPLICATION AND APPLICATION FOR LEAVE TO AMEND COMPLAINT AND LOCAL RULE 3-1 DISCLOSURES; REQUEST FOR FURTHER CASE MANAGEMENT CONFERENCE** Judge: The Honorable Saundra B. Armstrong Date: October 22, 2002 Time: 1:00 p.m.

NOTICE OF APPLICATION

PLEASE TAKE NOTICE that plaintiff and counter-defendant InterTrust Technologies Corporation ("InterTrust") hereby applies, pursuant to Federal Rule of Civil Procedure 15(a), for leave to amend it Complaint in this action. InterTrust further applies, pursuant to Patent Local Rule 3-7, for leave to serve an amended Patent Local Rule 3-1 Disclosure of Asserted Claims

and Preliminary Infringement Contentions. InterTrust also requests that the Court schedule a further Case Management Conference at its earliest convenience. This application is set for hearing on October 22, 2002, at 1:00 p.m. This application is based upon the following Memorandum of Points and Authorities, and upon the accompanying declarations of Michael H. Page and David P. Maher.

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

InterTrust hereby applies for leave to amend its complaint, in the form attached hereto as Exhibit A, and to serve amended Patent Local Rule 3-1 disclosures, in order to include in this case significant additional infringements of its patents by Defendant Microsoft Corporation ("Microsoft"). Those additional infringements include Microsoft products and services introduced to the marketplace since the filing of InterTrust's initial complaint in this action, as well as infringements revealed as a result of discovery produced by Microsoft in the course of this litigation. If granted, leave to amend will add an additional four InterTrust patents (Nos. 5,915,019 ("the '019 patent"), 5,949,876 ("the '876 patent"), 6,112,181 ("the '181 patent") and 6,389,402 B1 ("the '402 patent")) to the seven patents already in suit.

Leave to amend should be granted, as a matter of course, for numerous reasons:

- Although the proposed amendment adds additional patents, the patents are closely related to those already in suit; all but one is a continuation or continuation-in-part from the same parent application as the current patents-in-suit, sharing substantially the same specification.
- The additional patents do not add any inventors to the suit, and Microsoft has not yet deposed any of the inventors.
- All documents related to the invention and reduction to practice of the four additional patents have already been produced in response to previous Microsoft discovery requests, and thus no additional discovery from InterTrust will be required.
- In advance of this motion and contemporaneous with claim charts for the existing patents-in-suit, InterTrust provided Microsoft with complete draft claim charts for the four additional patents (claim charts that under the Patent Local Rules would not have been due for months after filing), thus obviating any delay caused by amendment.
- In the absence of leave to amend, InterTrust would be required (and entitled) to file the new allegations of infringement as a separate case, which in due course

either (a) would be related to and consolidated with the existing suit anyway, after unnecessary delay and motion practice, or (b) would proceed separately, requiring two Markman hearings construing multiple identical terms and two trials, both raising the distinct possibility of conflicting rulings.

Basic principles of judicial economy and established rules of procedure dictate that leave to amend be granted in such circumstances. InterTrust, in advance of filing this application, served upon Microsoft amended claim charts for the existing patents-in-suit and complete claim charts for the four additional patents, and asked that Microsoft stipulate to leave to amend. See Declaration of Michael H. Page ("Page Decl."), ¶¶ 5-9 & Exhs.C,D. Microsoft declined to stipulate, necessitating this application.[1] Id., ¶ 6-9 & Exhs. E, G.

II. STATEMENT OF FACTS

This action has been pending for some fifteen months. As one would expect in any litigation concerning "cutting edge" technology, the world has not stood still while this case has been pending. Microsoft has continued to release new versions of its software, and has unveiled numerous new products, services, and initiatives. Chief among those initiatives has been Microsoft's ".NET" initiative, Microsoft's next generation technology platform. Since this lawsuit was filed, Microsoft has rolled out myriad aspects of .NET, and has begun publishing sufficient information about its .NET architecture to enable InterTrust to identify numerous additional infringements of its patents. As set forth in the accompanying Declaration of David P. Maher, InterTrust's Chief Technical Officer (hereafter, "Maher Decl."), significant technical source material used to identify those infringements was not available until late 2001 or 2002. Maher Decl., ¶5.

In addition, since this lawsuit was filed, Microsoft has shipped new versions of its operating system (Windows XP), has unveiled the Xbox gaming system, has introduced or updated technologies such as Windows CE for Automotive, Microsoft's driver signing

[1] In addition to adding four new patents, InterTrust's proposed amended complaint includes U.S. Patent No. 6,157,721, which is currently asserted in a separate but related and consolidated action, No. C 02 0647 SBA. The amended complaint makes no changes in the allegations related to that patent, and incorporates it only in order to fully consolidate the pending actions under a single case number. Upon filing of the Fourth Amended Complaint, the consolidated case could then be dismissed as moot.

technology, and its Media Player application, and has implemented numerous new technologies to allow secure computing across multiple distributed machines. Maher Decl. ¶¶ 6, 7. In each instance, and others, Microsoft has only later published technical disclosures and other information concerning these infringing technologies. Only as technical disclosures and publications concerning these new products and services have become available, InterTrust has been able to identify additional infringements of its patents. An extensive list of these sources, published or released in late 2001 and 2002, is contained in the Declaration of David P. Maher.

Similarly, time has not stood still at InterTrust. Pending patent applications have resulted in additional patents being issued to InterTrust, including the '402 patent, issued in May of this year. In its proposed amended complaint, InterTrust alleges infringement of this new patent. Moreover, analysis of material produced by Microsoft in discovery has revealed additional infringed claims from the patents-in-suit.[2]

As a result, it is again necessary for InterTrust to amend both its complaint and its Local Rule 3-1 disclosures, in order to assert all currently known claims in a single action. Those claims include four additional patents. Three of the four additional patents (the '019, 876, and '402 patents) are continuations or divisionals of the same original patent application from which five of the seven patents-in-suit arose. As a result, they share the same inventorship, and substantially the same specification, as the patents already in suit. Thus, there is little or no additional discovery that needs be taken concerning the inventorship of these additional patents: all documents concerning that invention and reduction to practice have already been produced, as well as file histories and draft claim charts. And as Microsoft has not yet deposed any of the inventors or any of the prosecuting attorneys, adding these patents will not result in duplicative discovery. Indeed, Microsoft has to date taken only one deposition of a third party, which will not need to be reconvened as a result of the proposed amendments. The fourth additional patent

[2] Just as with the additional patents, InterTrust on April 30 and again on June 21 served amended claim charts detailing additional claims from the patents-in-suit. Page Decl. ¶ 6 & Exh C. Microsoft has taken the position that InterTrust must seek leave of Court to serve those amended claim charts. Id., Exhs.E, G. Accordingly, InterTrust asks that the Court, in granting leave to amend and setting a revised schedule, also grant leave to serve those supplemental claim charts.. See Part II (B), infra.

(the '181 patent), although it is not a continuation of other patents-in-suit, springs from the same research efforts at InterTrust, and shares inventorship with the existing patents-in-suit. And again, all documents related to that patent have already been produced, as have file histories and draft claim charts.

Similarly, adding the four additional patents will have only limited impact on the conduct of this case under the Local Patent Rules. InterTrust has already produced claim charts for all eleven patents, and Microsoft has not yet served its Patent Local Rule 3-2 invalidity contentions. Although Microsoft will of course be required to present invalidity contentions for eleven patents rather than seven, and the parties and the Court will have to conduct claim construction hearings on eleven patents, the significant overlap of both subject matter and specifications (and thus the significant overlap of terms to be construed) means that Markman proceedings for all eleven patents will be at most only incrementally more complex than proceedings on the existing seven patents: with few if any exceptions, the terms to be construed extend across the entire body of patents. Indeed, given the close relationship between the various InterTrust patents, it would be wildly inefficient to litigate the newer infringements in a separate case, requiring two separate Markman hearings in two separate matters, with near-complete overlap of the terms to be construed.

III. ARGUMENT

A. LEAVE TO AMEND THE COMPLAINT SHOULD BE GRANTED

Federal Rule of Civil Procedure 15(a) provides that leave to amend a complaint "shall be freely given when justice so requires." See also Bowles v. Reade, 198 F.3d 752, 757 (9th Cir. 1999) (noting that the federal rules evidence a "strong policy permitting amendment"). "Rule 15's policy of favoring amendments to pleadings should be applied with extreme liberality." DCD Programs, Ltd. v. Leighton, 833 F.2d 183, 186 (9th Cir. 1987). The Ninth Circuit has noted that, when determining whether to grant leave to amend, a court must evaluate five factors: (1) bad faith by the moving party; (2) undue prejudice to the opposing party; (3) undue delay by the moving party; (4) futility of the amendment; and (5) whether the moving party has previously

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amended its complaint. Id. at 186 & n.3. The party opposing amendment bears the burden of showing prejudice. Id. at 187.

Each of these factors militates for leave to amend. There can be no question that InterTrust has acted in good faith: InterTrust could not have included in its initial complaint infringement allegations concerning products and services that had not yet been released (or for which Microsoft had not yet released technical information), or based on patents that had not yet issued. Moreover, InterTrust advised Microsoft many months ago that it expected to add additional infringement allegations based on new information. That issue was discussed at length in the course of preparing the April 1, 2002 Case Management Conference Statement, which expressly sets forth both InterTrust's intention to add additional claims at the agreed-upon time of serving additional Patent Local Rule 3-1 disclosures and the parties' respective positions concerning what effect those additional claims would have on the proposed litigation schedule. Page Decl., ¶¶ 2-5 & Exhs. A & B at 11.[3]

Similarly, leave to amend will not cause any undue prejudice to Microsoft. As noted above, Microsoft has not conducted any depositions of inventors or prosecuting attorneys, so no discovery will need to be repeated. Neither are there any significant rulings that need be revisited, as no claim construction, infringement, or validity issues have yet been decided. Other than document discovery (which, as noted above, has on the InterTrust side covered the proposed additional patents as well as those in suit), this case is despite its age in the early stages of litigation. Admittedly, the allegations of infringement against additional Microsoft products and services expands the scope of the case—and the scope of discovery that must be provided by Microsoft—beyond that of the existing claims. But that is a function of Microsoft's vastly expanded infringement of InterTrust's patents, not of the proposed amendment, and those claims will be brought against Microsoft regardless whether leave is granted to amend this complaint. If

[3] Due in large part to Microsoft's decision to file its ill-fated summary judgment motion, which it later withdrew, that Case Management Conference was first rescheduled to coincide with the hearing of that motion, and then cancelled along with the withdrawn motion. As a result, the parties have been proceeding on a proposed litigation schedule that has never been approved by the Court. InterTrust respectfully urges that a Case Management Conference be held at the Court's earliest convenience.

anything, bringing those additional claims into this case will streamline the overall course of litigation between these parties.

Nor can there be a claim that InterTrust has unduly delayed bringing these additional claims. InterTrust has diligently researched new Microsoft products and services as they have been released, and as technical details of their operation have become available. InterTrust has at all times advised Microsoft timely of additional claims, and has even taken the step of providing Microsoft with Local Rule 3-1 claim charts in advance of filing its amended complaint—claim charts that would not actually be due for many months. InterTrust has also diligently brought additional claims into the existing complaint in this action, rather than hold claims back.[4]

And finally, there can be no question of futility here: this is not a case where leave to amend is sought in response to a prior dismissal, and thus where the Court can assess whether any proposed amendment could cure a previously-adjudicated defect. Rather, these are new claims, occasioned by additional infringing acts by Microsoft.

Conversely, refusal of leave to amend would unduly prejudice InterTrust. Absent leave to amend, InterTrust will be forced to file a separate action, which will begin an entirely new one- to two-year process leading to a largely redundant Markman proceeding. As a result, Microsoft will be able to avoid trial of its current technology almost indefinitely: as that second filing wends its way to trial, Microsoft will undoubtedly continue to release new versions of its software, and continue to resist amendment to encompass its current products. Microsoft will undoubtedly argue that there must be some point at which the pleadings must be fixed, and they are correct in principle. But that time is not now, while discovery is still open, no substantive depositions have been conducted by Microsoft, no substantive rulings have been made, and no invalidity or claims construction positions have been taken. At this early stage, InterTrust submits that the proper and judicially efficient course is to amend the current complaint to

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[4] As a result, this is InterTrust's Fourth Amended Complaint, but that should not weigh against InterTrust's amendment here: rather, it is evidence of InterTrust's diligent attempts to avoid

encompass all known claims, so that validity and claims construction proceedings can be conducted once rather than multiple times.

B. LEAVE TO SERVE AMENDED PATENT LOCAL RULE 3-1 DISCLOSURES SHOULD BE GRANTED

The Court should also grant leave for InterTrust to serve its amended Patent Local Rule 3-1 disclosures—amended disclosures that have already been served upon Microsoft on June 21, 2002. Patent Local Rule 3-7 provides that preliminary or final infringement contentions may be amended or modified upon a showing of good cause. There can be no dispute that good cause exists for InterTrust to amend its claim charts in this case. The proposed amendments do not change previous infringement positions in order to avoid the effect of prior rulings, as was the case in Atmel Corp. v. Information Storage Devices, 1998 U.S. Dist. LEXIS 17564 (1998) (rejecting attempt to amend claim charts after Markman ruling and with summary judgment motions pending). Rather, they add additional claims of infringement based upon new Microsoft products and services, and based upon documents produced by Microsoft since service of InterTrust's preliminary claims charts. As set forth above and in the Declaration of David P. Maher, the proposed amendments are based in large part on information that was not made available by Microsoft until late last year and this year.

Neither can there be any possible prejudice to Microsoft as a result of the amended claims charts. Although InterTrust's prior claim charts were served in November, 2001, nothing of substantive effect has occurred since. Microsoft has not taken any positions in reliance on the prior claim charts: in fact, Microsoft has not yet even served its Patent Local Rule 3-3 Preliminary Invalidity Contentions. Under the Patent Local Rules, those disclosures are the next step after Rule 3-1 claim charts, and are supposed to be served 45 days after Rule 3-1 disclosures. Microsoft can hardly claim to be prejudiced by amendment of InterTrust's claim charts when it has not even proceeded to the next step in the process. Neither have there been any substantive decisions by the Court in the interim.

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undue delay and prejudice.

Conversely, denial of leave to serve amended claim charts would severely prejudice InterTrust. Denial of leave would mean that Microsoft could avoid liability for significant portions of its ongoing patent infringement simply by releasing new products and services after service of InterTrust's initial disclosures. Unless leave is granted to bring new and newly-discovered infringements into this case, InterTrust would be required to file a separate lawsuit, asserting the same patents against the same defendant, every time Microsoft shipped another infringing product. And, assuming such seriatim complaints were required, Microsoft would upon resolution of the first case surely argue that subsequent cases, filed during the pendency of the first suit, were barred either by res judicata or as impermissibly split causes of action. And of course—as noted above—such seriatim cases would almost certainly be related and consolidated with this case in any event. Where—as here—no prejudice flows from amending the existing claim charts at this early stage, the more logical course is to simply allow the new claims to be amended into the pending litigation. Any other course would be a waste of judicial resources.

IV. CONCLUSION

For the foregoing reasons, InterTrust respectfully requests that the Court (1) grant leave to file InterTrust's Fourth Amended Complaint, (2) grant InterTrust leave to serve amended Patent Local Rule 3-1 disclosures, (3) order the consolidated case No. C 02 0647 SBA dismissed as moot, and (4) set a further Case Management Conference at the Court's earliest convenience for the purpose of setting a revised Case Management schedule.

Respectfully submitted.

Dated: July 30, 2002

KEKER & VAN NEST, LLP

By: _____

MICHAEL H. PAGE
Attorneys for Plaintiff and Counter-Defendant
INTERTRUST TECHNOLOGIES CORPORATION